

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2012**



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**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**City Officials**  
**As of Year Ended June 30, 2012**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2012)</b>		
Don Hall	Chairman, Light Plant Trustee	January, 2016
Dean Hubbard	Light Plant Trustee	January, 2014
Doug Ver Meer	Light Plant Trustee	January, 2012
Kevin Kudart	Superintendent	Indefinite
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Victoria Place	Attorney	Indefinite
<b>(After January 2012)</b>		
Don Hall	Chairman, Light Plant Trustee	January, 2016
Dean Hubbard	Light Plant Trustee	January, 2014
Doug Ver Meer	Light Plant Trustee	January, 2017
Charles Sheets	Light Plant Trustee	January, 2018
John Bushong	Light Plant Trustee	January, 2018
Kevin Kudart	Superintendent	Indefinite
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Victoria Place	Attorney	Indefinite



## Independent Auditor's Report

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montezuma Municipal Light and Power Plant's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note (1), these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were presented in conformity with an other comprehensive basis of accounting. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Light and Power Plant's basic financial statements. Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-7 and 19-20 presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the audit procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

October 11, 2012

## Management's Discussion and Analysis

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The City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- Receipts of the Utility decreased 52.6%, or approximately \$3,881,800, from fiscal 2011 to fiscal 2012. This is primarily due to no loan proceeds this year, but loan proceeds of \$3,820,000 in the prior fiscal year. The loan proceeds were used to refinance loans at more favorable rates.
- Disbursements decreased 58.3%, or approximately \$4,701,040 from fiscal 2011 to fiscal 2012. This is due primarily to loan principle and interest payments of \$411,174 this year compared to \$5,188,103. Last year \$4,000,000 in debt was refinanced at more favorable rates and \$1,000,000 in loans related to the wind turbine project were paid off when it was decided not to proceed with that project at this time.
- The Utility's total cash basis net assets increased 5.8%, or approximately \$126,000 from June 30, 2011 to June 30, 2012.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Supplementary Information provides detailed information about the schedule of indebtedness and revenue note maturities.

### Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

### REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

#### *Government-wide Financial Statement*

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

Business type activities include electric service. This activity is financed primarily by user charges.

#### *Fund Financial Statements*

The Utility has one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance increased from a year ago, from \$2,190,984 to \$2,317,285. The analysis that follows focuses on the changes in cash balances.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 3,472	3,548
General receipts:		
Unrestricted interest on investments	6	6
Loan proceeds	-	3,820
Other general receipts	15	1
Total receipts	3,493	7,375
Disbursements:		
Electric	3,367	8,068
Total disbursements	3,367	8,068
Change in cash basis net assets	126	(693)
Cash basis net assets beginning of year	2,191	2,884
Cash basis net assets end of year	\$ 2,317	2,191

Total business type activities charges for service receipts for the fiscal year were \$3.472 million compared to \$3.548 million last year due primarily to lower residential usage. The cash balance increased by approximately \$126,000 from the prior year primarily due to lower loan payments. Total disbursements for the fiscal year decreased by 139.6% to a total of \$3.367 million, due primarily to \$5,000,000 in loan refinancing and payoffs last year that were not recurring.

The Montezuma Municipal Light and Power Plant has no governmental activities.



## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund cash balance increased by \$126,301 to \$2,317,285, due primarily to lower debt costs.

## BUDGETARY HIGHLIGHTS

The Utility's budget was set at the beginning of the year with expected receipts at \$3,146,014 and disbursements at \$3,000,750. The Utility budget was not amended during the year. Total business type disbursements exceeded the budget by \$365,818.

## DEBT ADMINISTRATION

At June 30, 2012, the Utility had approximately \$3,505,000 in bonds and other long-term debt, compared to approximately \$3,820,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2012	2011
Revenue notes	\$ 3,505	3,820
Total	\$ 3,505	3,820

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Total revenues and sales for 2011-2012 were close to what was expected. The residential customer class showed the largest decrease in usage. We believe the decrease was due to homes being removed with no new homes being built to replace them, and better energy conservation measures being used by homeowners.

Total revenues and sales for 2012-2013 are expected to remain about the same, with a small decrease in Large Industrial usage expected, due to the fact the largest manufacturer in town has shut down one of its lines. A new housing development on the city's south side will hopefully bring residential usage back up. Weather, as always, will play a large role in usage amounts. The higher than normal temperatures this summer has increased usage, although we have not set a new peak.

Collections have improved due to our involvement with the state's Offsets Program. This program allow us to collect on delinquent utility bills through the customer's income tax refunds.

A software program has been purchased that will allow us to track expenditures and revenues for a better overall check of our rate stability. We are also considering the costs and benefits of changing from the cash basis method of accounting to the accrual method.

The following are an update of some of the major electric projects:

- 1) Forty-two new energy saving LED street lights and steel poles have been installed from the city's east entrance to Highway 63 and around the square. These lights are expected to save the city about 20% in electricity usage and maintenance.
- 2) Two catalysts have been installed and approved for the EPA RICE rule on emissions for 2013.
- 3) Plans for acquiring equipment and wire for the new 31 lot housing development are under way, with installation work to begin this fall or early next spring.
- 4) In November we made an additional investment in the Walter Scott Energy Center adding 190KW of power.

We believe that the overall economy in Montezuma will be stable, with no significant increase or decrease.

## CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Hall, Chairman of the Trustees, 501 East Main St., Box 314, Montezuma, Iowa 50171.

## **Basic Financial Statements**

Exhibit A

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the year ended June 30, 2012**

				Net (Disbursements) Receipts and Changes in Cash Basis Net	
	Disbursements	Program Receipts		Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities	Total
<b>Functions/Programs:</b>					
Business type activities:					
Electric	\$ 3,366,568	3,471,832	-	105,264	105,264
Total business type activities	\$ 3,366,568	3,471,832	-	105,264	105,264
<b>General Receipts:</b>					
Unrestricted interest on investments				5,872	5,872
Miscellaneous				15,165	15,165
Total general receipts and transfers				21,037	21,037
Change in cash basis net assets				126,301	126,301
Cash basis net assets beginning of year				2,190,984	2,190,984
Cash basis net assets end of year				\$ 2,317,285	2,317,285
<b>Cash Basis Net Assets:</b>					
Restricted:					
Non-expendable:					
CMMPA required deposit				\$ 199,000	199,000
Expendable:					
Debt service/improvements				731,263	731,263
Unrestricted				1,387,022	1,387,022
<b>Total cash basis net assets</b>				\$ 2,317,285	2,317,285

See notes to financial statements.

Exhibit B

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2012**

	Enterprise Funds
	Electric
Operating receipts:	
Charges for service	\$ 3,471,832
Total operating receipts	<u>3,471,832</u>
Operating disbursements:	
Business type activities	<u>2,945,429</u>
Total operating disbursements	<u>2,945,429</u>
Excess of operating receipts over operating disbursements	526,403
Non-operating receipts (disbursements):	
Rental income	7,200
Interest on investments	5,872
Miscellaneous	7,965
Debt service	(411,674)
Miscellaneous expense	(9,465)
Total non-operating disbursements	<u>(400,102)</u>
Excess of receipts over disbursements	<u>126,301</u>
Net change in cash balances	126,301
Cash balances beginning of year	<u>2,190,984</u>
Cash balances end of year	<u><u>\$ 2,317,285</u></u>
<b>Cash Basis Fund Balances</b>	
Restricted:	
Restricted for debt service/improvements	\$ 731,263
Restricted deposit-CMMPA	199,000
Unrestricted	<u>1,387,022</u>
Total cash basis fund balances	<u><u>\$ 2,317,285</u></u>

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Municipal Light and Power Plant

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Proprietary Funds

As of and for the year ended June 30, 2012

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Total enterprise funds cash balances (Exhibit B)	\$ 2,317,285
Cash basis net assets of business type activities (Exhibit A)	\$ 2,317,285
Net change in cash balances (Exhibit A)	\$ 126,301
Change in cash balance of business type activities (Exhibit B)	\$ 126,301

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis. The Utility provides electric utility for the City's citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria. The Utility is, however, a component unit of the City of Montezuma. The City of Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a five member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council and is a part of the City's certified budget. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the Utility's non-fiduciary assets. Net assets are reported in the following categories/components:

*Non-expendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained by an outside party on behalf of the Utility.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary fund:

The Enterprise, Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light and Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The Utility has a required deposit which is a non-expendable restricted net asset as listed in Exhibit A and B. The only expendable restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. The sinking fund, reserve account and improvement account as described in Note (3) b), c) and d) are not available for current expenses.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the Utility's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and the unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the business type activities function.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$4,007 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

**(3) Notes Payable**

Annual debt service requirements to maturity for revenue notes are as follows:

Year ending June 30,	Electric Revenue Notes, Series A 2011	
	Principal	Interest
2013	320,000	92,757
2014	325,000	88,918
2015	330,000	83,717
2016	335,000	77,283
2017	340,000	69,578
2018	350,000	60,907
2019	360,000	51,458
2020	370,000	40,297
2021	380,000	27,718
2022	395,000	14,417
<b>Total</b>	<b>\$ 3,505,000</b>	<b>607,050</b>

Revenue Notes

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$3,820,000 in electric revenue notes issued in February 2011. Proceeds from the notes provided financing for a joint ownership with Mid-American Energy and thirteen other municipalities to construct and operate a coal fired steam electric generating unit in Pottawattamie County, Iowa. The note is payable solely from electric customer net receipts and is payable through 2022.

Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$4,112,050.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) An electric reserve account of \$461,707 shall be maintained within the Enterprise Funds until the 2011 note has been paid in full.
- d) An improvement account is set aside requiring \$2,500 on the first day of each month until \$150,000 is accumulated. The full \$150,000 improvement account has been set aside. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

**(4) Pension and Retirement Benefits**

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.



Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010, were \$18,116, \$16,653, and \$16,793, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – There is a medical/prescription drug plan which provides benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There were four active employees in the Electric Utility's plan at the year end. The plan has no early retirees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are \$657 for single coverage and \$2,015 for family coverage.

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2012, the Electric Utility contributed \$65,421 and plan members contributed \$0 to the plan.

**(6) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2012 is \$15,733. This liability has been computed based on rates in effect at June 30, 2012.

**(7) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 26,462	-
Water Dept. Billing/Meter Reading	25,849	-
Gas Dept. Electric Use	1,715	-
Gas Dept. Billing/Meter Reading	29,601	-
General City Electric Use	62,701	-
Computer Maintenance	5,346	-
Power Plants - Taxes in lieu	-	(65,651)
Totals	\$ 151,674	(65,651)

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(8) Related Party Transactions**

The Light and Power Plant had business transactions between the Plant and related parties of the Plant totaling \$36,932 during the year ended June 30, 2012.

**(9) Risk Management**

The Utility is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automotive liability, automobile physical damage, public officials liability, police professionals liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2012 were \$37,144.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then the payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Utility also carries commercial insurance purchased from other insurers for coverage associated with workers compensation. The Utility assumes liability for any deductibles, and claims in excess of coverage limitations. The Utility paid \$1,963 for the year ended June 30, 2012 for this insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Economic Dependency**

During the year ended June 30, 2012, the City of Montezuma Municipal Light and Power Plant had one major supplier who provided power to the Utility and amounted to 26.4% of its expenditures. It also had one major customer, whose purchases totaled 27.8% of the charges for service revenue of the Utility.

**(11) Commitments and Contingencies**

On December 6, 2006, the City of Montezuma Municipal Light and Power Plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. There is a total contingent liability for \$262,215, or 0.88% of a \$29,902,146 investment by CMMPA. As of June 30, 2012, none of this has been paid. To date revenues have exceeded costs on this investment so CMMPA has not required the funds, but we are committed to this payment if needed.

## **Other Information**

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)**  
**Proprietary Funds**  
**Other Information**  
**Year ended June 30, 2012**

	Proprietary Funds Actual	Budgeted Amounts Original & Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 13,072	-	13,072
Miscellaneous	7,965	-	7,965
Charges for service	3,471,832	3,146,014	325,818
Total receipts	3,492,869	3,146,014	346,855
Disbursements:			
Business type activities	3,366,568	3,000,750	(365,818)
Total disbursements	3,366,568	3,000,750	(365,818)
Deficiency of receipts under disbursements	126,301	145,264	(18,963)
Other financing sources, net	-	-	-
Deficiency of receipts and other financing sources under disbursements and other financing uses	126,301	145,264	(18,963)
Balances beginning of year	2,190,984	(361,887)	2,552,871
Balances end of year	\$ 2,317,285	(216,623)	2,533,908

See accompanying independent auditor's report.

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Notes to Other Information - Budgetary Reporting**  
**June 30, 2012**

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The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year there were no amendments to the business type activity function of the electric utility budget.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the business type activities function.

### **Supplementary Information**

Schedule 1

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Schedule of Indebtedness**  
**Year ended June 30, 2012**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric-2011 Series A	2/28/2011	1.00-3.65%	\$ 3,820,000	3,820,000	-	315,000	3,505,000	96,174	30,919
				<u>\$ 3,820,000</u>	<u>-</u>	<u>315,000</u>	<u>3,505,000</u>	<u>96,174</u>	<u>30,919</u>

See accompanying independent auditor's report.



Schedule 2

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Revenue Note Maturities**  
**June 30, 2012**

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Year Ending June 30,	Electric Revenue Note Issued February 28, 2011	
	Interest Rate	Amount
2013	1.20%	\$ 320,000
2014	1.60%	325,000
2015	1.95%	330,000
2016	2.30%	335,000
2017	2.55%	340,000
2018	2.70%	350,000
2019	3.10%	360,000
2020	3.40%	370,000
2021	3.50%	380,000
2022	3.65%	395,000
		<u>\$ 3,505,000</u>

See accompanying independent auditor's report.

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT**



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**Van Maanen, Sietstra & Meyer, PC**

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2012, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated October 11, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of the City of Montezuma Municipal Light and Power plant is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Montezuma Municipal Light & Power's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Montezuma Municipal Light & Power's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Montezuma Municipal Light & Power's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Montezuma Municipal Light and Power Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the City of Montezuma Municipal Light and Power Plant's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma Municipal Light and Power Plant and other parties to whom the Utility may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

October 11, 2012

**Findings Related to the Financial Statements:**

**Internal Control Deficiencies:**

- (A) Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Due to cross-training for versatility, personnel have access to functions which, from a segregation of duties standpoint, are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

**Instances of Non-compliance:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the budget in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, Public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of Utility officials or employees were noted.

**City of Montezuma, Iowa**  
**Light and Power Plant**  
**Schedule of Findings**  
**Year ended June 30, 2012**

- (4) Business Transactions - Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Hicks, Mayor, Owner of Jim's Heating and Air Conditioning	Plant Boilers	\$ 26,996
	AC Repairs	715
		<u>27,711</u>
Mike Fahlenkamp, father-in-law of Shanel Fahlenkamp, Trustee Secretary	On call capacity generation	3,000
	Waterheater	1,131
		<u>4,131</u>
Kyler Kudart, Plant Superintendent's son, Kyler's Mowing Service	Mowing	1,530
Charles Sheets, Trustee, Owner of Sheets Excavating	Excavating	3,170
Doug Ver Meer, Trustee, Owner of Vannoy Chevrolet	Repairs	390

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, transactions with Vannoy Chevrolet do not appear to represent a conflict of interest since the total transaction was less than \$1,500 during the fiscal year. Transactions amounting to \$1,500 or more may be a conflict of interest. Legal council should be contacted regarding these items.

Recommendation – The Utility should apply for bids, or receive quotes for purchases before buying from related parties in order to substantiate that these transactions are done in the public's best interest, and in an arm's length transaction. Legal council should be contacted.

Response – We will comply with Chapter 362.5(3) of the Code of Iowa in the future. We will also contact legal council.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Trustee Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- (8) Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution. No instances of non-compliance with the revenue bond resolutions were noted.